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ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

32R

Marc Spitzer
Chairman
William A. Mundell
Commissioner
Mike Gleason
Commissioner
Jeff Hatch-Miller
Commissioner
Kristin Mayes
Commissioner

Arizona Corporation Commission
DOCKETED

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IN THE MATTER OF QWEST
CORPORATION'S FILING AMENDED
RENEWED PRICE REGULATION PLAN

DOCKET NO.
T-01051B-03-0454

IN THE MATTER OF THE INVESTIGATION
OF THE COST OF
TELECOMMUNICATIONS ACCESS

DOCKET NO.
T-00000D-00-0672

NOTICE OF FILING TESTIMONY

Pursuant to the amended procedural order in this matter, the
ARIZONA UTILITY INVESTORS ASSOCIATION (AUIA) hereby
submits the rebuttal testimony of Walter W. Meek.

Respectfully submitted, this 20th day of December, 2004.

Walter W. Meek
Walter W. Meek, President

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Copies of the referenced testimony
hand delivered this 20th day of December, 2004, to:

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Parties of Record


WALTER W. MEEK

DOCKET NO. T-01051B-03-0454

REBUTTAL TESTIMONY OF WALTER W. MEEK

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1 **REBUTTAL TESTIMONY OF WALTER W. MEEK**

2

3 **I. INTRODUCTION, QUALIFICATIONS AND PURPOSE OF TESTIMONY**

4

5 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

6 **A. My name is Walter W. Meek. My business address is 2100 North Central**
7 **Avenue, Suite 210, Phoenix, Arizona 85004.**

8 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9 **A. I am the president of the Arizona Utility Investors Association (AUIA), a non-**
10 **profit organization formed to represent the interests of equity owners and**
11 **bondholders who are invested in utility companies that are based in or do**
12 **business in the State of Arizona.**

13 **Q. DOES AUIA'S MEMBERSHIP INCLUDE SHAREHOLDERS WHO HAVE**
14 **EQUITY INTERESTS IN QWEST COMMUNICATIONS**
15 **INTERNATIONAL, INC.?**

16 **A. Yes. Although they are a shrinking number, we have members whose stock**
17 **ownership dates to the breakup of the Bell system.**

18 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

19 **A. On behalf of AUIA, an intervener in this proceeding.**

20 **Q. HAVE YOU FILED TESTIMONY PREVIOUSLY IN THIS DOCKET?**

21 **A. No. AUIA did not file direct testimony. We are filing rebuttal concurrently**
22 **with Qwest's rebuttal because AUIA's position is more closely aligned with**
23 **that of the company than with other parties.**

24 **Q. WHAT IS THE OVERALL PURPOSE OF YOUR TESTIMONY?**

25 **A. In general, I am testifying in support of amendments to Qwest's price**
26 **regulation plan that would improve the company's ability to operate**
27 **profitably in a rapidly changing competitive environment. In the process, I**
28 **will touch on the testimony of Staff witnesses Elijah Abinah, Matthew Rowell**
29 **and Armando Fimbres.**

30 **Q. CAN YOU SUMMARIZE THE ELEMENTS OF YOUR TESTIMONY?**

31 **A. Yes. I will begin by summarizing AUIA's concern about the competitive**
32 **crisis, which we believe is confronting Qwest in Arizona. Next, I will**
33 **comment generally on Staff's reactions to the Qwest proposal. Finally, I will**

1 discuss the relative positions of Staff, Qwest and AUIA on specific elements
2 of the price cap plan and other aspects of Qwest's proposal. These include:

- 3 • Elimination of the Inflation/ Productivity Adjustment
- 4 • A proposed new rate cap for Basket One
- 5 • Elimination of the hard caps on Basket One services
- 6 • Adoption of new competitive zones
- 7 • Elimination of the revenue cap on Basket Three
- 8 • Treatment of new services and promotional offerings
- 9 • Elimination of the free call allowance in Directory Assistance
- 10 • Deregulation of billing & collection and voicemail services
- 11 • Changes to the Arizona Universal Service Fund

12 **Q. WOULD YOU PLEASE EXPLAIN WHY YOU ARE QUALIFIED TO**
13 **PROVIDE TESTIMONY ON THIS SUBJECT MATTER?**

14 **A.** I represent the largest cross-section of utility stockholders in the State of
15 Arizona and I have been involved with the utility business in Arizona for 28
16 years. I have participated in dozens of Commission dockets on behalf of
17 AUIA and testified in numerous proceedings. My testimony and written
18 comments have covered topics including competition rules, rate of return
19 issues, stranded costs, depreciation, disposition of regulatory assets, AFUDC,
20 inclusion of CWIP in rate base and the impact of regulatory decisions on
21 analyst and investor expectations.

22 **Q. ARE YOU TESTIFYING AS AN EXPERT WITNESS?**

23 **A.** Not really. I will attempt to bring a "real world" investor perspective to some
24 of the complicated pricing issues raised in the rate case.

25 **Q. HAVE YOU PERSONALLY PURCHASED AND SOLD COMMON**
26 **STOCK OR OTHER EQUITY INSTRUMENTS?**

27 **A.** Certainly, both in and outside the utility arena. I own stock in utilities that
28 are regulated by this Commission, although my portfolio does not currently
29 include Qwest.

30 **Q. IN YOUR POSITION WITH AUIA, HAVE YOU DISCUSSED INVESTING**
31 **IN COMMON STOCKS OR BONDS OF UTILITIES AND/OR OTHER**
32 **CORPORATIONS?**

33 **A.** Yes. Investment in equities and debt, particularly in utilities, is the

1 foundation of AUIA's existence. In order to advance the interests of AUIA's
2 members, I have developed a good working knowledge of the utility industry
3 and, specifically, investment related matters.
4

5 **II. QWEST IS A CASUALTY OF UNINTENDED CONSEQUENCES.**
6

7 **Q. DOES AUIA HAVE PARTICULAR CONCERNS ABOUT QWEST'S**
8 **COMPETITIVE SITUATION IN ARIZONA?**

9 **A.** Yes. We believe Qwest is in the early stages of what I call the utility "death
10 spiral."

11 **Q. WHAT IS THAT?**

12 **A.** It occurs when a price-regulated utility begins losing customers, market share
13 and revenues to lower priced competitors or new technologies. The utility
14 has to maintain the system it has, regardless of utilization, and if it is a
15 provider of last resort, it must continue to add infrastructure, even to the
16 point of creating excess capacity. As costs outpace new revenues, the utility
17 has to seek rate increases, which motivates more customers to go to other
18 providers. And so, the downward spiral continues.

19 Taken to its final conclusion, this scenario can lead to the financial
20 collapse or bankruptcy of the utility. If that result seems implausible, it is
21 certainly clear that under traditional rate regulation, a shrinking number of
22 customers who can't escape the utility's service will pay higher and higher
23 charges to support it.

24 **Q. WHAT IS THE SOLUTION TO THIS DILEMMA?**

25 **A.** Frankly, given the turbulence in this industry today, I don't know that there
26 is a definitive solution. However, AUIA believes these things: 1) The
27 Commission cannot solve this dilemma by throwing money at the problem
28 through rate increases; and 2) If the Commission doesn't want to preside over
29 a telecom disaster, it must give Qwest the pricing and marketing flexibility to
30 challenge its competitors fairly in the best way it can.

31 **Q. WHAT IS QWEST'S SITUATION?**

32 **A.** For starters, Pat Quinn, Qwest's president in Arizona, has described Arizona
33 as the most competitive telecommunications market in the country. That

1 shouldn't be surprising, given that the state's growth rate would attract many
2 telecom providers.

3 In that environment, Qwest has experienced a net loss of 577,000
4 residential access lines from 2000 through 2003, including nearly 17% of
5 primary residential lines and 33% of additional lines. According to Qwest,
6 that translates into lost revenues of about \$350 million a year.

7 Company officials estimate that competitors have captured more than
8 22% of the residential and business wire-line market, excluding the business
9 lost to wireless companies. When wireless is included, Qwest officials
10 estimate that their market share has fallen to about 40%. That is no longer a
11 monopoly business.

12 **Q. ISN'T THIS COMPETITIVE SQUEEZE HAPPENING TO OTHER BABY**
13 **BELLS AND THROUGHOUT QWEST'S SERVICE AREA?**

14 A. Yes. All of the Baby Bell ILECs report line losses, but not to the same extent
15 as Qwest. In addition, some Bell ILECs, like Verizon and SBC, are much
16 better insulated from displacements that are due to wireless competition.

17 Company witness David Teitzel noted in his direct testimony that 35%
18 of Qwest's line losses in its entire 14-state region occurred in Arizona. I don't
19 know whether that's disproportionate to Arizona's market size, but it should
20 sound an alarm to this Commission. Arizona is Qwest's most important
21 market, both in terms of size and rate of growth. If Qwest continues to lose
22 market share in Arizona, they won't be able to make it up in South Dakota.
23 The inevitable results are service failures somewhere in their system.

24 **Q. HOW HAS THE COMPETITIVE MODEL DEVELOPED IN ARIZONA?**

25 A. I would say very differently from what was envisioned when the
26 Telecommunications Act was passed in 1996. I think the vision then was that
27 while the long distance giants slugged it out for market share, the Baby Bells
28 would unbundle their networks and services and newly formed CLECs
29 would eventually figure out how to make a buck in local competition. Then
30 the ILECs would re-engage the long distance business and everyone who
31 survived would own a similar basket of products. Telephone customers
32 would bask in a Nirvana of price alternatives.

1 For years, this Commission and regulators across the country hacked
2 their way through the jungle of telephone networks and wholesale pricing to
3 arrive at this competitive model. In Arizona, Qwest reclaimed access to the
4 long distance market only a year ago.

5 **Q. HOW IS THE RESULT DIFFERENT TODAY?**

6 A. Although the CLECs are not unimportant, especially in the contest for
7 business customers, it is clear that the real competitive threat to Qwest is
8 cable, i.e., Cox Arizona, and wireless. Cox is absorbing new and existing
9 wire-line business and the wireless companies are apparently sopping up the
10 growth in usage. Both are essentially unregulated. Long distance service
11 barely has any business value, since wireless providers are simply giving it
12 away. Just over the competitive horizon is voice over Internet protocol
13 (VOIP), another unregulated service.

14 **Q. WHAT IS UNIQUE ABOUT COX?**

15 A. To begin with, the fact that Cox cable probably passes 90% of the homes in
16 Maricopa County. It was always assumed that the competitive landscape
17 would include some facilities-based carriers and that they would probably
18 provide the strongest competition to the ILEC. But there is no way that any
19 other CLEC could match the penetration of cable.

20 In addition, the technology and infrastructure of cable television
21 produce a heavenly marketing match when packaged with high-speed
22 Internet access and local and long distance telephone service.

23 There is no doubt that Cox has invested massive sums to upgrade its
24 system to handle internet access and telephone service, but it is also clear that
25 Cox enjoys a huge marketing advantage when it is able to roll out its entire
26 package on the back of a cable monopoly that is unregulated.

27 **Q. HAVE YOU EXPERIENCED COX'S MARKETING TECHNIQUES?**

28 A. Yes. Cox is a marketing powerhouse that has great flexibility. When Qwest
29 announced its 5-cent long distance offering, Cox responded immediately with
30 a 3-cent plan, which has now been added to its market basket.

31 I'm a cable TV customer of Cox and I live in a neighborhood that has
32 about 100% cable penetration, so I may be high on their marketing list. After
33 all, in marketing you try to hunt ducks where the ducks are. Nevertheless, I

1 haven't bought anything new from Cox in 17 years, yet I receive six to eight
2 pieces of high quality mail from them every month in addition to bill inserts.

3 In contrast, as a Qwest local exchange customer, I have received
4 exactly one piece of mail from them about their long distance plan. As a long
5 distance customer of MCI, I have never received anything from them
6 regarding local phone service. Clearly, Cox is the big dog in marketing
7 communications.

8 **Q. IS QWEST BEING DAMAGED BY WIRELESS COMPETITION?**

9 A. There is no question about that, but there seems to be a lack of data to
10 quantify its impact to date on existing wire-line business versus new phones.
11 It seems clear that wireless has killed the pay phone business and most of the
12 market for second wire-line phones.

13 Mr. Teitzel cites Federal Communications Commission (FCC) data,
14 which shows that in mid-2003 there were 2.64 million wireless connections in
15 Arizona, making up 45% of all telephone connections in the state. That is
16 already a huge number, but AUIA is concerned that it may be just the
17 beginning.

18 It was long assumed that the greatest barrier to an explosion of
19 wireless usage was the absence of number portability. Now we have
20 portability, but it has only been available for a short time and we have no
21 clear idea of its ultimate impact. I have seen market survey results which
22 indicate that as many as 70% of wire-line subscribers would switch to
23 wireless if they could keep their phone numbers.

24 The next barrier may relate to emergency (911) calling and the inability
25 to pinpoint the location of a wireless caller. Technology will remove that
26 barrier relatively soon and make wireless service even more attractive.

27 We have also just learned about the merger of Sprint and Nextel,
28 creating a third behemoth wireless company. It's unclear what direct impact
29 this merger may have on Qwest, since Qwest's wireless customers already
30 use the Sprint network. At a minimum, the merger will further concentrate
31 marketing power among three companies that will control about 75% of all
32 wireless voice traffic.

1 Based on Mr. Fimbres' testimony, Commission Staff seems to believe
2 that wireless has not yet proven to be a viable substitute for wire-line service
3 and that its chief impact may be in discretionary usage that is in addition to
4 primary residential usage.

5 In AUIA's view, this distinction is not relevant. In the short run, it
6 may seem to be more damaging to give up revenue from a lost connection,
7 but the long run outlook is grim for a regulated company that doesn't benefit
8 from the growth of its customer base, especially if it must continue to add
9 utility plant that eventually becomes excess capacity.

10 **Q. ARE CLECs OTHER THAN COX MAKING COMPETITIVE INROADS?**

11 A. Yes, although the empirical data are difficult to interpret. Mr. Teitzel noted
12 that there were 118 approved interconnection agreements on file with the
13 Commission as of February 2004. In addition, the FCC statistics he cited
14 indicated that there were 519,000 CLEC lines in existence in mid-2003. That
15 would equate to about 16% of the wire-lines in the state and would include
16 Cox's penetration at that time.

17 I would assume that Cox's residential telephone business has
18 increased significantly since then. However, based on the dearth of
19 residential marketing communications from other CLECs, I believe that their
20 market penetration is skewed heavily toward business customers.

21 **Q. WHY WOULD THEY CONCENTRATE ON BUSINESS CUSTOMERS?**

22 A. Business customers are easier to identify, easier to market to, less costly to
23 serve and simply more profitable. A cable run will pass many more line
24 connections in a business area than in a residential neighborhood. Besides, in
25 the early days of local competition, there were things going on in the
26 marketplace that were very difficult for an incumbent utility to deal with.

27 For example, building owners and property managers would make
28 deals with CLECs to help them wire new buildings or rewire old ones in
29 exchange for exclusive rights to provide service to the tenants. It's difficult
30 for an ILEC to respond to that kind of competition when they don't know it's
31 happening and when they're conditioned to wait for customers to knock on
32 their door.

1 A few years ago, we decided in my office that we needed a new phone
2 system with some better features. We had 10 lines at the time, provided by
3 US West. We contacted a recommended equipment supplier whose first
4 question was, who provided our phone service? I found out a couple of
5 weeks later why it mattered.

6 We settled on a system we liked, but we balked at the price because it
7 was significantly more expensive than the system we had. The supplier said
8 he would take care of the differential. The next thing we knew, we were
9 contacted by a CLEC who offered us phone service at a large enough
10 discount from US West that it made up for the difference in equipment cost.
11 We bit.

12 An acquaintance of mine in telephone equipment sales told me later
13 that it was not unusual to use CLEC discounts to help sell phone systems to
14 small and medium size businesses.

15 **Q. WHERE DOES VOIP FIT IN THIS DYNAMIC?**

16 A. I don't think anyone knows for sure, but it should be of concern to anyone
17 who's in the wire-line or long distance business. As far as I know, the only
18 real barriers to VOIP are disinterest and the need for broadband access. If
19 you obtain broadband for other purposes (i.e., high speed internet access),
20 there is almost no reason not to employ VOIP. It just hasn't caught on yet.

21 I can hardly imagine a business that can get along without broadband
22 access through cable or DSL, provided it's available at their location.
23 Broadband penetration is increasing at the residential level, with some
24 estimates as high as 50% penetration. The simple fact is that if you have a
25 computer at home, you're going to get fed up with dial-up service and opt for
26 broadband from someone. It's an easy next step to VOIP.

27 VOIP has significant political support at the federal level. In addition,
28 there is beta testing under way at two or more large electric utilities to
29 determine whether it is practical to provide broadband access over power
30 lines, which could aid VOIP penetration.

31
32

1 **III. ACC STAFF IS STRUGGLING TO ADAPT TO THE COMPETITIVE**
2 **MARKET THE COMMISSION HAS HELPED TO CREATE.**

3
4 **Q. DOES AUIA HAVE AN OVERALL REACTION TO STAFF'S CURRENT**
5 **APPROACH TO PRICE CAP REGULATION?**

6 **A.** Yes. Setting revenue issues aside, Staff's response to Qwest's proposals is
7 encouraging in several respects. For example, Staff is willing to explore the
8 concept of competitive zones, the centerpiece of Qwest's amended price
9 regulation plan. Staff also has agreed to update the administration of the
10 plan, grant Qwest some additional flexibility in marketing promotions and
11 deregulate certain services.

12 Underlying these decisions is an implicit recognition that the
13 competitive market has developed in unexpected ways and that Qwest is
14 constrained in its ability to respond to the competition. I suspect that Staff is
15 also concerned that its provider of last resort may land in serious financial
16 jeopardy if its competitive position continues to deteriorate.

17 **Q. ARE THERE AREAS OF CONCERN TO AUIA IN STAFF'S RESPONSES?**

18 **A.** Yes. Some of Staff's responses reflect a fear of uncertainty and a reluctance to
19 leave the safe harbor of rate regulation.

20 Mr. Fimbres' analysis of the competitive landscape and Mr. Rowell's
21 discussion of the criteria for defining competitive zones are pervaded by a
22 rage for data. They want to know what the CLECs are really doing, rather
23 than what they say they are doing in their tariffs and marketing materials.
24 They would like to know who the new cell phone users are and whether they
25 gave up wire-line service.

26 Staff may argue that the Commission's duty to nurture competition
27 requires it to act only with optimal information. But the Commission might
28 have to accept the fact that empirical data precisely defining the competitive
29 market may never be available, partly because the market is extremely fluid
30 and partly because the competitors will not be completely forthcoming about
31 their business.

1 Staff's insistence on retaining the hard caps on Basket One services and
2 their refusal to let competitive forces determine Basket Three revenues
3 demonstrate a reluctance to forsake traditional rate regulation.

4 Having said all of that, AUIA is extremely optimistic that are areas of
5 accommodation between the company and Staff positions.

6
7 **IV. AUIA RESPONSES TO SPECIFIC QWEST PROPOSALS AND STAFF**
8 **RECOMMENDATIONS.**
9

10 **Q. WHAT IS AUIA'S POSITION ON QWEST'S REVENUE DEFICIENCY?**

11 A. Obviously, AUIA is concerned about an annual revenue deficiency of
12 between \$320 and \$450 million. However, I believe we are on the same page
13 with Qwest in believing that raising rates to cover the deficit can't solve the
14 problem. That could result in doubling Qwest's basic residential and
15 business rates and it would send Qwest customers racing to find alternative
16 providers.

17 **Q. WHAT IS AUIA'S VIEW OF THE STAFF RECOMMENDATION ON**
18 **RETURN ON EQUITY (ROE)?**

19 A. Because AUIA is not focused on the revenue deficiency, we have not pored
20 over Staff witness Joel Reiker's DCF and CAPM calculations. However, I note
21 that Mr. Reiker has recommended an ROE of 14.6%. My response to that
22 recommendation is, where was he hiding when I needed him a couple of rate
23 cases ago? Either Mr. Reiker has experienced an epiphany, or I am not
24 conversant with the current risk factors associated with this industry. I
25 suspect the latter is the case.

26 **Q. CAN YOU COMMENT FOR AUIA ON SPECIFIC ELEMENTS OF**
27 **QWEST'S PRICE CAP AMENDMENTS AND OTHER PROPOSALS?**

28 A. Yes. I'll discuss nine separate elements of their proposal:

29 **1. Elimination of the Inflation/Productivity Adjustment from Basket One**
30 **Services.**

31 AUIA agrees with Staff and the company that this adjustment should go. It's
32 an anachronistic device, which is designed to limit company earnings. It is

1 inappropriate in a competitive environment and has been punitive in recent
2 years.

3 **2. Replace the Productivity Adjustment with a New Rate Cap.**

4 AUIA concurs with the Staff and the Company on this change.

5 **3. Eliminate the Hard Caps on Basket One Services.**

6 AUIA parts company with the Staff on this element. This is an example in
7 which the Staff shows great reluctance to embrace competition fully and
8 depart from traditional price regulation. While this basket contains what are
9 generally regarded as basic or essential services, the hard caps limit Qwest's
10 ability to package its products in response to market conditions. If they were
11 removed, the overall cap on Basket One revenue would still protect
12 consumers and any price adjustments imposed by Qwest would have to be
13 revenue neutral. The hard caps should be removed.

14 **4. Adopt a Test to Designate New Competitive Zones.**

15 Qwest proposes to create a test by which the Commission could designate
16 certain areas as competitive zones in which Basket One services would be
17 reclassified into Basket Three, providing Qwest with maximum flexibility in
18 pricing and packaging its products. According to Mr. Teitzel, Qwest has been
19 granted similar flexibility in six other states.

20 AUIA views this as the most significant element in Qwest's amended
21 price cap plan. Although the devil may be in the details, we are gratified that
22 Staff, as discussed in Mr. Rowell's testimony, is willing to give this concept
23 fair consideration.

24 Mr. Rowell and Mr. Fimbres exhibit some discomfort with the precise
25 test parameters proposed by Qwest. In their view, the mere presence of a
26 CLEC in a zone may not guarantee real competition. AUIA has no firm
27 position on this point except that the test should fairly represent the
28 competitive pressure that Qwest faces. We understand Staff's desire to
29 proceed cautiously and to avoid over-reacting, but Mr. Fimbres' discussion of
30 the competitive environment sounds a little like a physician who wants to see
31 the corpse before he can prescribe a cure.

32 Mr. Rowell takes issue with Qwest's suggestion that competitive zones
33 should be delineated by the company's wire centers. He has concerns about

1 customer confusion over wire center boundaries and the fact that Qwest's
2 competitors cannot produce data based on the company's wire centers.
3 Staff's preferred delineation is the zip code. Although this approach may
4 produce some problems for Qwest, AUIA believes it is worth exploring.
5 AUIA agrees with Qwest that a separate docket to consider this issue is not
6 necessary.

7 The bottom line is that designation of competitive zones is a creative
8 way to allow Qwest to confront its competition on a level playing field and
9 should be adopted by the Commission in a workable form.

10 **5. Eliminate the Revenue Cap on Basket Three.**

11 AUIA supports this provision because it makes sense. If Basket Three
12 services are competitive by definition, why cap the revenues? The
13 competitive market will provide its own cap on the prices and, therefore, the
14 revenues that Qwest can realize from these services. It is a mechanism to
15 control earnings, which doesn't fit a competitive model. Rather than
16 eliminating the cap, Staff proposes to increase it. This is another indication of
17 Staff's reluctance to shed traditional price regulation in a competitive
18 environment.

19 **6. Treat New Services as Competitive and Put Qwest on the Same Footing**
20 **as Its Competitors on Promotional Offerings.**

21 Although these proposals are separated in the plan they are similar in the
22 effect they would have on Qwest's marketing flexibility. Currently, Qwest
23 must go through a time-consuming two-step process to have a new product
24 declared competitive. Qwest believes that new services should be classified
25 as competitive automatically, as they are in some other Qwest jurisdictions.
26 Staff disagrees and supports a continuation of the existing process.

27 Qwest also must provide the Commission with 30 days notice of new
28 promotions and it proposes to eliminate this requirement. In this instance,
29 Staff agrees. AUIA sides with Qwest on both counts because they constrain
30 the company's ability to move with the same alacrity as their competitors.
31 Timing is everything in marketing.

32 **7. Eliminate the Free Call Allowance in Directory Assistance.**

1 Qwest proposes to eliminate the distance sensitive zone charges in UNE
2 Zones 2 and 3. As a rate-balancing offset, Qwest also proposes to eliminate
3 the monthly free call to directory assistance (DA). Irrespective of the UNE
4 zone charges, AUIA agrees that the free call should be eliminated. According
5 to Mr. Abinah, Staff wants to retain this feature because it helps to cure
6 deficient listings in the printed directory. AUIA finds it hard to believe that a
7 single free directory assistance call benefits anyone. Directory assistance is
8 available from numerous sources, including the Internet and all wireless
9 providers, and Mr. Teitzel's testimony indicates that Qwest's DA call volume
10 has diminished more than 50 percent since 1999. Almost no service is more
11 competitive than directory assistance and the Commission should simply get
12 out of that business.

13 **8. Deregulate Billing and Collection and Voicemail Services.**

14 Staff agrees with the company that there are sufficient competitive
15 alternatives for these services to permit them to be deregulated. AUIA
16 concurs.

17 **9. Augment the Arizona Universal Service Fund (AUSF).**

18 Qwest proposes to close the gap between the actual cost of serving remote
19 areas of the state and the allowable charge to customers by imposing a
20 monthly surcharge of approximately \$.46 on all wire-line and wireless
21 customers in the state. The surcharge would generate approximately \$64
22 million of new revenue.

23 According to Mr. Abinah's testimony, staff opposes this idea, partly in
24 the belief that it would simply provide Qwest with a new revenue stream,
25 and because Qwest has not committed to use the fund for specific upgrades
26 such as broadband deployment.

27 The underpinning for Qwest's proposal is that a loop in a rural zone
28 costs about \$36 and the customer charge is limited to the statewide rate of \$13
29 for a residential line. Qwest argues that eliminating this difference will
30 motivate all providers, including Qwest's competitors, to engage in remote
31 service. The AUSF allocation would be assignable to any subsequent
32 provider.

1 While it may be that Qwest would be the largest beneficiary of the
2 augmented fund at the outset, it is difficult to argue Qwest's logic that the
3 surcharge would be beneficial to remote service. AUIA believes that Qwest's
4 AUSF proposal deserves a tryout.

5
6 **V. CONCLUSION**

7
8 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

9 **A.** The Commission and the stakeholders in the telecommunications industry
10 are caught in a competitive dynamic that is not well understood by most of
11 us. In just a few years, the relative positions in the Arizona marketplace of
12 Qwest and its competitors have changed dramatically in ways that were not
13 anticipated when the 1996 Telecommunications Act was passed.

14 Although Qwest is still the major player in the market, it is no longer
15 the only elephant in the room. In fact, its market share and competitive
16 position are eroding hourly, at least in part because the company is too
17 constricted by regulation and cannot match the flexibility and responsiveness
18 of its largely unregulated competitors.

19 This case is not about money. It is about creating a more level playing
20 field. Through the price cap amendments and increased flexibility proposed
21 by Qwest, much of which is supported by Staff, the Commission has the
22 opportunity to redress the balance, hopefully before it is too late. There may
23 not be much time.

24 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

25 **A.** Yes it does.
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